

**REPORT OF THE AUDIT OF THE
ELLIOTT COUNTY
SHERIFF'S SETTLEMENT - 2008 TAXES**

**For The Period
May 1, 2008 Through April 29, 2009**

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To the People of Kentucky
Honorable Steven L. Beshear, Governor
Jonathan Miller, Secretary
Finance and Administration Cabinet
Honorable David Blair, Elliott County Judge/Executive
Honorable Ronnie Stephens, Elliott County Sheriff
Members of the Elliott County Fiscal Court

Independent Auditor's Report

We have audited the Elliott County Sheriff's Settlement - 2008 Taxes for the period May 1, 2008 through April 29, 2009. This tax settlement is the responsibility of the Elliott County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement in accordance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Elliott County Sheriff's taxes charged, credited, and paid for the period May 1, 2008 through April 29, 2009, in conformity with the modified cash basis of accounting.

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary

Finance and Administration Cabinet

Honorable David Blair, Elliott County Judge/Executive

Honorable Ronnie Stephens, Elliott County Sheriff

Members of the Elliott County Fiscal

In accordance with Government Auditing Standards, we have also issued our report dated November 23, 2009, on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discuss the following report comment:

- 2008-1 Condition: The Sheriff's Office Lacks Adequate Segregation of Duties

Respectfully submitted,

Morgan - Franklin, LLC

Morgan- Franklin, LLC

November 23, 2009

ELLIOTT COUNTY
 RONNIE STEPHENS, COUNTY SHERIFF
SHERIFF'S SETTLEMENT - 2008 TAXES

For The Period May 1, 2008 Through April 29, 2009

<u>Charges</u>	Special			
	<u>County Taxes</u>	<u>Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 146,250	\$ 291,291	\$ 504,018	\$ 147,458
Tangible Personal Property	3,365	4,678	12,960	8,157
Fire Protection	2,492			
Increases Through Exonerations	150	299	517	151
Franchise Corporation	34,817	47,472	113,384	
Additional Billings	46	92	159	47
Unmined Coal	892	1,755	3,066	901
Bank Franchises	10,080			
Penalties	1,514	2,931	5,150	1,485
Adjusted to Sheriff's Receipt	20	28	74	93
Gross Chargeable to Sheriff	199,626	348,546	639,328	158,292
<u>Credits</u>				
Exonerations	1,963	3,823	6,760	1,912
Discounts	2,387	4,112	7,395	1,987
Delinquents:				
Real Estate	4,471	8,801	15,228	4,455
Tangible Personal Property	32	45	124	120
Unmined Coal	9	18	31	9
Uncollected Franchise	502	689	1,646	
Total Credits	9,364	17,488	31,184	8,483
Taxes Collected	190,262	331,058	608,144	149,809
Less: Commissions *	8,374	13,734	24,326	6,654
Taxes Due	181,888	317,324	583,818	143,155
Taxes Paid	181,613	316,815	582,870	142,878
Refunds (Current and Prior Year)	287	527	979	288
Due Districts or (Refunds Due Sheriff)		**		
as of Completion of Fieldwork	\$ (12)	\$ (18)	\$ (31)	\$ (11)

* and ** See Page 4

The accompanying notes are an integral part of this financial statement.

ELLIOTT COUNTY
RONNIE STEPHENS, SHERIFF
SHERIFF'S SETTLEMENT – 2008 TAXES
For The Period May 1, 2008 Through April 29, 2009
(Continued)

* Commissions:

10% on	\$	10,000
4.25% on	\$	526,540
4% on	\$	742,734

** Special Taxing Districts:

Ambulance District	\$	(8)
Health District		(3)
Extension District		(2)
Soil Conservation District		(5)

Due Districts or (Refunds Due Sheriff)	\$	<u>(18)</u>
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ELLIOTT COUNTY
NOTES TO FINANCIAL STATEMENT

April 29, 2009

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus. The Sheriff follows the guidance of the Audit Guide for Sheriff Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky, which does not require a management discussion and analysis or budgetary comparison information.

Charges are sources of revenue, which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue, which are recognized when there is proper authorization. Taxes paid are uses of revenue, which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Elliott County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

ELLIOTT COUNTY
 NOTES TO FINANCIAL STATEMENT
 April 29, 2009
 (Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a depository institution's failure, the Sheriff's deposits may not be returned. The Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of April 29, 2009, the Sheriff's deposits were covered by FDIC insurance and a properly executed collateral security agreement.

Bank Balance At 4/29/09	\$ 24,754
Less: FDIC	(250,000)
Collateral*	<u>(1,075,000)</u>

Collateral in Excess of Deposits \$ (1,300,246)

*Pledged securities held by a third party bank in the county officials name.

Note 3. Tax Collection Period

Property Taxes

The real and personal property tax assessments were levied as of January 1, 2008. Property taxes were billed to finance governmental services for the year ended June 30, 2009. Liens are effective when the tax bills become delinquent. The collection period for these assessments was May 1, 2008 through April 29, 2009.

Note 4. Interest Income

The Elliott County Sheriff earned \$80 as interest income on 2008 taxes. The sheriff paid \$114 in total to the fee account and school district. As of April 29, 2009, the Sheriff's tax account was owed \$16 in interest from the school district and \$18 in interest from his fee account.

Note 5. Sheriff's 10% Add-On Fee

The Elliott County Sheriff collected \$9,600 of 10% add-on fees allowed by KRS 134.430(3). This amount will be used to operate the Sheriff's office.

Note 6. Advertising Costs And Fees

The Elliott County Sheriff collected \$880 of advertising costs and fees allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff distributed the advertising costs to the county as required by statute and the advertising fees were used to operate the Sheriff's Office.

ELLIOTT COUNTY
NOTES TO FINANCIAL STATEMENT
April 29, 2009
(Continued)

Note 7. Unrefundable Duplicate Payments And Unexplained Receipts Should Be Escrowed

The Sheriff should deposit any unrefundable duplicate payments and unexplained receipts in an interest-bearing account. According to KRS 393.110, the Sheriff should properly report annually to the Treasury Department any unclaimed moneys. After three years, if the funds have not been claimed, the funds should be submitted to the Kentucky State Treasurer. For the 2008 taxes, the Sheriff had \$106 in unrefundable duplicate payments and unexplained receipts. Therefore, the Sheriff should send a written report to the Treasury Department.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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To Honorable David Blair, Elliott County Judge/Executive
Honorable Ronnie Stephens, Elliott County Sheriff
Members of the Elliott County Fiscal Court

Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the Elliott County Sheriff's Settlement - 2008 Taxes for the period May 1, 2008 through April 29, 2009, and have issued our report thereon dated November 23, 2009. The Sheriff prepares his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Elliott County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Elliott County Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Elliott County Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the modified cash basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the following deficiency described in the accompanying comments and recommendations to be a significant deficiency in internal control over financial reporting: 2008-1.

Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiency described above to be a material weakness.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Elliott County Sheriff's Settlement - 2008 Taxes for the period May 1, 2008 through April 29, 2009, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management, the Elliott County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

Morgan - Franklin, LLC

Morgan-Franklin, LLC

November 23, 2009

COMMENTS AND RECOMMENDATIONS

ELLIOTT COUNTY
RONNIE STEPHENS, SHERIFF
COMMENT AND RECOMMENDATION

For The Period May 1, 2008 Through April 29, 2009

SIGNIFICANT DEFICIENCY - MATERIAL WEAKNESS:

2008-1 Condition: The Sheriff's Office Lacks Adequate Segregation of Duties

The Sheriff's office has a lack of segregation of duties. All office staff collects receipts including the bookkeeper. The bookkeeper prepares daily checkouts and posts to the receipts ledger. The bookkeeper prepares the bank reconciliations and agrees bank balances to the ledgers. The Sheriff's bookkeeper prepares, posts and mails all checks for disbursements.

Criteria: Good internal controls dictate the same employee should not perform all aspects of a transaction.

Effect: Misappropriation of assets could occur and be undetected.

Cause: Due to the entity's diversity of official operations, small size and budget restrictions the official has limited options for establishing adequate segregation of duties.

Recommendation: The Sheriff could strengthen controls by:

- Reviewing the deposit, and comparing it to the daily checkout sheet and receipts ledger.
- Mailing Disbursements.

These procedures could be documented by the Sheriff initialing the checkout sheet, receipts ledger, or deposit slip.

Sheriff's Response: None.